

Attachment A

REVISED SURREBUTTAL TESTIMONY AND EXHIBIT OF

DAWN M. HIPPI

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2021-130-S

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 A. My name is Dawn M. Hipp. My business address is 1401 Main Street, Suite 900,
3 Columbia, South Carolina, 29201. I am employed by the State of South Carolina as the
4 Chief Operating Officer of the Office of Regulatory Staff ("ORS").

5 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

6 A. Yes. I filed Direct Testimony with the Public Service Commission of South
7 Carolina ("Commission") on August 24, 2021, regarding Synergy Utilities, L.P.'s
8 ("Synergy") and South Carolina Water Utilities, Inc.'s ("SCWU") (collectively, the "Joint
9 Applicants") request for approval of a sale of assets, including sewer facilities, territories,
10 and certificates of public convenience and necessity, from Synergy to SCWU
11 ("Application").

12 **Q. WHAT IS THE PURPOSE OF YOUR REVISED SURREBUTTAL TESTIMONY**
13 **IN THIS PROCEEDING?**

14 A. The purpose of my surrebuttal testimony is to respond to certain portions of rebuttal
15 testimony of SCWU witness Craig Sorensen. Specifically, I respond to:

- The proposal to transfer the Northwood Estates (“Northwood”) customers and assets to the City of Orangeburg (the “City”) Department of Public Utilities (“Orangeburg DPU”) at no cost.
- The quantifiable benefits for customers of the sale.
- The additional costs to customers.
- The deadline to provide service enhancements.

I. TRANSFER OF NORTHWOOD TO ORANGEBURG DPU

Q. PLEASE RESPOND TO SCWU WITNESS SORENSEN’S REBUTTAL TESTIMONY THAT SCWU’S DECISION TO GIVE THE ASSETS AND CUSTOMERS OF NORTHWOOD TO ORANGEBURG DPU DEMONSTRATES THAT SCWU IS NOT FOCUSED ON ACHIEVING THE HIGHEST RETURN FOR SCWU’S RESPECTIVE OWNERS.¹

A. SCWU witness Sorensen provides no financial analysis to support his statement and does not acknowledge the fact that the revenues generated by Northwood customers do not fully recover the Orangeburg DPU wastewater treatment costs in certain months. This is due to Synergy’s current practice to cap the maximum level of Orangeburg DPU Commodity/Capacity Charge billed to Northwood customers during months where the sewer collection system experiences excessive inflow and infiltration (“I&I”). As stated in my direct testimony, ORS calculated the loss experienced by Synergy associated with the Orangeburg DPU Commodity/Capacity Charge during the most recent 18-month time period (January 2019 through July 2021) at an amount over \$59,000. Thus, Synergy or

¹ Rebuttal Testimony of Craig Sorensen, p.2 lines 3-5.

SCWU would immediately experience relief from the unrecovered Orangeburg DPU Commodity/Capacity Charges by giving the Northwood system to Orangeburg DPU.

In addition, the Joint Applicants provided information in response to ORS discovery that demonstrates the total Net Plant value of the Northwood collection system is \$7,768.² Between 2017 and 2020, several engineering evaluations of the Northwood collection system were performed. While the evaluation results and cost estimates vary, it is apparent from the engineering evaluations that repairs, and replacements are needed within the Northwood collection system. The cost estimates contained in the engineering evaluations far exceed the net plant value and current revenue loss. As referenced in the August 26, 2021, letter filed with the Commission on behalf of Orangeburg DPU, the City is exploring the availability of funding for the Northwood collection system and ORS understands the funding may be used by Orangeburg DPU to repair these identified deficiencies.³

Based on the above, it is clear that the Northwood collection system has the potential to detract from the future financial performance of Synergy or SCWU and, therefore, donating the Northwood system to Orangeburg DPU will result in financial and operational benefits to either Synergy or SCWU.

Q. DOES THE LETTER FILED WITH THE COMMISSION ON AUGUST 26, 2021, ON BEHALF OF THE CITY OF ORANGEBURG ALTER THE NEED FOR ORS' RECOMMENDED MERGER CONDITIONS #16 AND #17?

² Joint Applicants Response to ORS AIR 2-9.

³ Letter Regarding Acceptance of Transfer filed August 26, 2021, on behalf of the City of Orangeburg.

1 A. No, not entirely. ORS appreciates the City of Orangeburg's expression of its
2 intention to accept the transfer of the Northwood collection system and customers subject
3 to obtaining all required approvals and the availability of funding. Because of this, it
4 appears the City may not be willing to vote to accept the Northwood collection system
5 absent the Commission's approval of the sale and transfer in this Docket. However, ORS
6 does not recommend the Commission approve the proposed Application and the transfer
7 of the Synergy system to SCWU absent the City's express approval to accept the transfer
8 of the Northwood collection system.

9 Because of this "chicken or the egg" dilemma, ORS takes the position that, if
10 funding is not made available for Orangeburg DPU to make the necessary repairs to the
11 Northwood system and if the City does not approve the acquisition of the system, the
12 customer protections outlined in ORS recommended Merger Conditions #16 and #17 are
13 necessary conditions for approval of the Application. The Merger Conditions would ensure
14 that, if Orangeburg DPU ultimately does not take over the system, SCWU will be required
15 to take all necessary actions to control the excessive I&I and that customer rates are not
16 adversely impacted by the Joint Applicants' decisions reflected in the APA.

17 As a reasonable path forward, ORS would support "conditional" approval of the
18 transfer and sale subject to the Merger Conditions outlined in my direct testimony with the
19 underlined alterations to Merger Conditions #16 and #17:

20 16. In the event the transfer of the Northwood collection system and customers is
21 not approved by the City of Orangeburg within 90 days after the Commission
22 Order in this Docket, SCWU shall complete an independent engineering
23 assessment and feasibility study of the Northwood collection system within 12
24 months from the date of closing. The independent engineering assessment and
25 feasibility study shall be funded solely by the owners of SCWU. The
26 independent engineering assessment and feasibility study shall be filed with the

Commission and ORS within 30 days of completion of the independent engineering assessment and feasibility study.

17. In the event the transfer of the Northwood collection system and customers is not approved by the City of Orangeburg within 90 days after the Commission Order in this Docket, SCWU shall complete the collection system improvements identified by the independent engineering assessment and feasibility study. SCWU shall begin improvement activity within 12 months of completion of the collection system and feasibility study. SCWU shall file with the Commission and ORS an estimated project timeline for completion and provide quarterly progress reports that detail the specific improvements, location of improvements, a breakdown of costs incurred, and any other information deemed necessary. ORS retains the right to, and may, oppose the SCWU's requests for cost recovery related to any collection system improvements in future base rate proceedings.

II. QUANTIFIABLE BENEFITS TO CUSTOMERS

Q. PLEASE RESPOND TO SCWU WITNESS SORENSEN'S DESCRIPTION OF THE BENEFITS THAT CUSTOMERS WILL RECEIVE AS A RESULT OF THE SALE.

A. SCWU witness Sorensen states that SCWU will provide customers with a "deeper roster" or an increased level of technical, billing and customer service staff compared to the small staff levels currently offered by Synergy. SCWU witness Sorensen goes on to assert that SCWU will provide IT experts to protect sensitive customer data and allow customers to make payments online via computer or cell phone. Finally, SCWU witness Sorensen alludes to increased resiliency due to the additional resources available to SouthWest.

However, Synergy already is able to meet the current customer needs and provide essentially the same services and SCWU only proposes to offer the Synergy customers more of the same service they currently receive. Also, the benefits the Joint Applicants claim customers will receive are achievable without the sale and the eventual increase in cost and expenses that will follow as a result of SCWU's ownership and operation of the system. Furthermore, the Joint Applicants have not been able to quantify or verify the financial

benefits, efficiencies, or synergies customers will receive as a result of the sale or to provide any guarantees that customers will receive improved service and reliability from the addition of more technical, billing and customer service staff.⁴ In short, the assertions and claims made by the Joint Applicants about quantifiable benefits are speculative and unsupported.

It is a fact that the sale will result in a very large Utility Plant Acquisition Adjustment transferred to the non-utility parent company as goodwill.⁵ Unfortunately, the funds paid in the acquisition premium will not be spent to repair or replace utility plant, improve business processes, or achieve cost savings for the customers. Therefore, ORS's recommended Merger Conditions are necessary to mitigate the risk to customers of additional costs and to provide quantifiable and verifiable merger efficiencies.

⁴ ORS asked the Joint Applicants in six (6) different Audit Information Requests to provide copies of cost studies or cost analyses to support the claims of improvements to reliability and resiliency that would result from the acquisition or have been realized by other SouthWest affiliates following other acquisitions by SouthWest. The Joint Applicants either objected to the request, stated "there are no cost studies or cost analyses performed as part of the acquisition," or only provided general and unsubstantiated comments about the acquisition. Joint Applicants Response to ORS AIR 1-14, 1-15, 1-21, 1-37, 1-45 and 2-8. See Surrebuttal Exhibit DMH-1 (Joint Applicants' Responses ORS AIRs designated as confidential under S.C. Code § 58-4-55 are not published in Surrebuttal Exhibit DMH-1).

⁵ Rebuttal Testimony of Craig Sorensen p.4 lines 8-10.

III. ADDITIONAL COSTS TO CUSTOMERS

Q. PLEASE RESPOND TO SCWU WITNESS SORENSEN'S REBUTTAL TESTIMONY ABOUT THE COST IMPACT TO CUSTOMERS RELATED TO MR. PARNELL'S EMPLOYMENT WITH SCWU.

A. SCWU witness Craig Sorensen states that Mr. Parnell is paid a salary from Synergy and his salary with SCWU will be less than his current salary.⁶ The APA states Mr. Parnell will execute an employment agreement with SouthWest and the starting salary will be no less than \$[REDACTED]. In Docket No. 2017-28-S, the Commission approved a schedule of rates and charges that included recovery of Mr. Parnell's annualized salary of \$[REDACTED] based on the Test Year ending June 30, 2017. Given the wording contained in the APA, it is reasonable to expect that the salary attributed to Mr. Parnell's continued employment with SCWU will increase resulting in additional costs to the customers following the acquisition. In addition, SCWU states that customers will receive the services of five qualified licensed wastewater operators, and it is likely that SCWU would seek to recover the labor costs attributed to the five additional wastewater operators in its next general rate proceeding.

Q. PLEASE RESPOND TO SCWU WITNESS SORENSEN'S REBUTTAL TESTIMONY IN WHICH SCWU DISAGREES WITH ORS' RECOMMENDED MERGER CONDITION #15 TO MITIGATE THE COST IMPACT OF EXCESSIVE I&I TO THE NORTHWOOD CUSTOMERS.

⁶ Rebuttal Testimony of Craig Sorensen p.4 lines 6-7.

1 A. In response to ORS discovery, the Joint Applicants affirmed that SCWU would
2 continue to cap Orangeburg DPU's wastewater treatment costs at 400 gallons per day per
3 month to protect Northwood customers from unusual spikes in treatment costs.⁷ However,
4 in Rebuttal Testimony SCWU witness Sorensen indicates that SCWU does not intend to
5 continue this practice indefinitely. ORS takes the position that the customer protections
6 outlined in ORS recommended Merger Condition #15 is an essential condition for approval
7 of the Application. Merger Condition #15 would ensure that, while SCWU operates the
8 Northwood collection system and if Orangeburg DPU ultimately does not accept the
9 collection system, SCWU will be required to cap the maximum level of the Orangeburg
10 DPU Commodity/Capacity Charge billed to Northwood customers at 400 gallons per day
11 until such a time as the collection system improvements are completed and the Commission
12 approves the cessation of the Commodity/Capacity charge billing cap.

13 Absent Merger Condition #15, Northwood customers could be adversely impacted
14 when SCWU determines that it no longer will provide the current customer protection.
15 ORS recommends SCWU not be allowed to recover any wholesale Orangeburg DPU
16 treatment expense above the maximum level of 400 gallons per day because, if SCWU
17 were allowed to recover the treatment cost from its customers, it would shift the cost burden
18 of poor collection system operations and maintenance practices away from SCWU and
19 onto the customers. In addition, the allowance of wastewater treatment costs above the 400
20 gallon per day per customer cap would serve as a disincentive to SCWU to timely correct
21 and control the excessive I&I.

⁷ Joint Applicants Response to ORS AIR 1-51.c.

1 Q. PLEASE RESPOND TO SCWU WITNESS SORENSEN'S REBUTTAL
2 TESTIMONY IN WHICH SCWU DISAGREES WITH ORS' PROPOSED
3 MERGER CONDITION #17 WHICH RECOMMENDS THAT COLLECTION
4 SYSTEM IMPROVEMENTS FOR THE NORTHWOOD SYSTEM BE FUNDED
5 BY THE OWNERS OF SCWU AND EXCLUDED FROM THE CALCULATION
6 OF THE COST OF CAPITAL AND RATE BASE.

7 A. SCWU will transfer the large Utility Plant Acquisition Adjustment to the non-
8 utility parent company, SouthWest, as goodwill.⁸ In response to ORS discovery, SCWU
9 stated it will fund the Synergy asset acquisition using a combination of existing debt and
10 equity, specifically short-term intercompany advances from SouthWest in the form of cash
11 on hand.⁹ As a result, the existing debt and equity from SouthWest diverted to
12 overcompensate Synergy in excess of double the net plant value will not be invested by
13 SCWU to make necessary repairs and replacements to reduce the excessive I&I in
14 Northwood. It is reasonable to anticipate that SCWU may obtain higher cost debt and/or
15 additional equity to make the necessary improvements to the Northwood collection system.
16 The additional capital and infrastructure improvements may be incorporated into rate base
17 on which SCWU's owners will have an opportunity to earn a reasonable return. As a result
18 of SCWU's decision to deploy capital to overcompensate Synergy for the sale, customers
19 will be penalized through higher rates while the owners experience a higher return. This is
20 unfair and unreasonable.

⁸ Rebuttal Testimony of Craig Sorensen p.4 lines 8-10.

⁹ Joint Applicants Response to ORS AIR 1-20, 2-6 and 2-7.

1 That said, ORS has revised its recommended Merger Condition #17 as shown on page 5 of
2 my surrebuttal testimony to provide that ORS reserves its rights to review and make
3 recommendations in the next general rate proceeding related to any infrastructure
4 improvements undertaken by SCWU. This will allow ORS and the Commission the ability
5 to address any infrastructure improvements in a future rate case.

6 **Q. DO YOU AGREE WITH SCWU WITNESS SORENSEN'S**
7 **CHARACTERIZATION OF THE NORTHWOOD COLLECTION SYSTEM AS**
8 **"CHALLENGED?"**¹⁰

9 **A.** No. SCWU Witness Sorensen implies that the collection system serving the
10 Northwood customers is not providing reliable and high-quality sewer service. This is not
11 an accurate characterization and it is not reflected in the information provided in the
12 Application or by the Joint Applicants. As stated in my Direct Testimony, Synergy does
13 not have environmental or regulatory compliance violations. The Commission has not
14 determined that Synergy has inadequate financial, managerial, or technical ability to
15 provide on-going quality sewer service. Aside from the high-bill complaints from
16 Northwood customers, which are related to the pass-through Orangeburg DPU Service
17 Charge, ORS has received few service complaints from Synergy customers.

¹⁰ Rebuttal Testimony of Craig Sorensen p.6 line 10.

IV. DEADLINE TO PROVIDE SERVICE ENHANCEMENTS

**Q. PLEASE RESPOND TO SCWU WITNESS SORENSEN'S REBUTTAL
TESTIMONY RELATED TO ORS' RECOMMENDED MERGER CONDITION
#6.**

A. SCWU Witness Sorensen indicates that SCWU will need up to 120 days after closing of the sale to implement online credit card bill pay and to provide customers with access to a 24-hour customer service team. ORS accepts the commitment by SCWU to provide these limited service enhancements. Pursuant to 10 S.C. Reg. 103-530.E, SCWU is required to provide customers access with adequate means to contact the utility at all hours in case of emergency.

**Q. WILL YOU UPDATE YOUR REVISED SURREBUTTAL TESTIMONY BASED
ON INFORMATION THAT BECOMES AVAILABLE?**

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information become available not previously provided by the Joint Applicants, or other sources, become available.

Q. DOES THIS CONCLUDE YOUR REVISED SURREBUTTAL TESTIMONY?

A. Yes, it does.

When asked to identify or provide a document, “identify” and “provide” mean to provide a full and detailed description of the document and the name and address of the person who has custody of the document. In lieu of providing a full and detailed description of a document, a copy of the document may be attached with the identity of the person who has custody of it. When the word “document” is used herein, it means any written, printed, typed, graphic, photographic, or electronic matter of any kind or nature and includes, but is not limited to, statements, contracts, agreements, reports, opinions, graphs, books, records, letters, correspondence, notes, notebooks, minutes, diaries, memoranda, transcripts, photographs, pictures, photomicrographs, prints, negatives, motion pictures, sketches, drawings, publications, and tape recordings.

Wherever in this request a masculine pronoun or possessive adjective appears, it refers to both males and females in accordance with traditional English usage.

IT IS THEREFORE REQUIRED:

- Pursuant to S.C. Code Ann. § 58-4-55(A), that responses be submitted under oath.
- In addition to the signature and verification at the close of the responses, the witness(es), employee(s), contractor(s), or agent(s) responsible for the information contained in each response shall be indicated at the bottom of each response.
- All information provided shall be provided in electronic form only unless otherwise requested. All information available in Excel spreadsheets shall be provided in Excel. All Excel spreadsheets shall be working copies with all formulas, links, and calculations intact.
- All electronic documents provided must be provided in native file format with all formulas, links, and calculations intact. Responses containing .pdf documents must be searchable. Each electronic file must be clearly marked with the Response number.
- Any inquiries or communications relating to questions concerning clarification of the information requested below should be directed to Kyle D. Maurer Sr., PhD, P.E. [803.737.0959], Daniel P. Hunnell [803.737.0780], Benjamin P. Mustian, Esquire [803.737.0898] or Alexander W. Knowles, Esquire [803.737.0889] of ORS.
- That the responses be sent electronically to Kyle D. Maurer Sr., PhD, P.E. at kmaurer@ors.sc.gov, Daniel P. Hunnell at dhunnell@ors.sc.gov, Benjamin P. Mustian,

Esquire at bmustian@ors.sc.gov, and Alexander W. Knowles, Esquire at aknowles@ors.sc.gov.

- That this entire list of requests be reproduced and included in front of each set of responses.
- If the response to any request is that the information requested is not currently available, please advise ORS and state when the information requested will be available and provided to the ORS. This statement is not a waiver of the deadline for all other responses.
- This request is continuing and requires the Company to supplement or amend its responses as any additional information becomes available.
- For every page produced to ORS that contains confidential information, the page is to be marked “CONFIDENTIAL” in the header. Any specific information which the Company designates as confidential information must also be marked by notation, highlighting, or other conspicuous means.
- The following definitions shall apply:
 - a. Goodwill. Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The terms “goodwill” and “acquisition premium” are used interchangeably for ratemaking purposes and for the purposes of this request.
 - b. Transaction costs. Transaction costs include any costs incurred in connection with completion of the acquisition of Synergy and/or its assets, facilities, territory, and Certificate of Public Convenience and Necessity by SCWU including the costs of obtaining all necessary regulatory approvals for the sale and any payments identified in the Agreement. Examples of such costs include, but are not limited to, legal fees and expenses, regulatory filing fees, costs of developing and pursuing regulatory approvals, accounting fees, interest, prepayment penalties, financial advisory fees, and banking fees.
 - c. Transition costs. Transition costs are generally costs arising from the activities necessary to integrate the purchased entity into the acquiring entity. Examples of transition costs include but are not limited to, those costs related to the integration of financial, IT, human resource, billing, accounting, and telecommunications systems and processes. Other examples of costs may include, but are not limited to, severance payments to employees, costs related to changes to signage, the cost of transitioning employees to post-merger employee benefit plans, legal fees, and expenses related to the resolution of the NPDES permit for Raintree Acres (SC0039055) and wholesale wastewater treatment agreement with City of Orangeburg Department of Public Utilities (“Orangeburg DPU”), and termination of any duplicative leases, contracts, operations.

II. REQUESTS

Questions about SCWU and SouthWest Water Company ("SWWC")

1-1

[REDACTED]

1-2

[REDACTED]

1-3

[REDACTED]

1-4

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1-5

[REDACTED]

[REDACTED]

[REDACTED]

1-6

[REDACTED]

[REDACTED]

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[REDACTED]

1-10 [REDACTED]
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1-11 [REDACTED]
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[REDACTED]
[REDACTED]
[REDACTED]

1-12 [REDACTED]
[REDACTED]
[REDACTED]

1-13 [REDACTED]
[REDACTED]
[REDACTED]

[illegible]

- SCWU objects to this request on the grounds that it is arbitrary, capricious, unnecessary, unduly burdensome, or unrelated to the regulated operations of a public utility. The request extends to SWWC's relationships with numerous regulated and unregulated subsidiaries in multiple states other than South Carolina. Subject to this objection, SCWU responds as follows.

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-Brian Bahr

Questions about the Joint Application

1-15 Paragraphs 10 and 16 of the Joint Application state that “[c]ustomers will not be materially affected by the transaction ...” and that “it is in the public interest that the Agreement be approved.” For each merger or asset acquisition that SWWC or its subsidiaries completed in the past ten (10) years, advise if SWWC or its subsidiaries made similar claims in filings with any state commission for approval of the acquisition. For each such merger or asset acquisition:

- a. Provide a detailed cost study or other analysis that the customers of those acquired utilities were not materially affected.

SCWU objects to this request on the grounds that it is arbitrary, capricious, unnecessary, unduly burdensome, or unrelated to the regulated operations of a public utility. The request extends to SWWC’s relationships with numerous regulated and unregulated subsidiaries in multiple states other than South Carolina. Subject to this objection, SCWU responds as follows.

All cost studies or analyses used by the Commission to support its determinations that the asset acquisitions listed in response to ORS Request No. 1-13 were in the public interest and that customers would not be materially affected by the transaction would have been included in the respective evidentiary records of those cases; please refer to the case records of those dockets. The equity transactions listed above were not subject to Commission jurisdiction; nevertheless, competitive benefits similar to asset sales are expected to be achieved.

- b. If no cost study or other analysis exists, provide a detailed explanation as to how SCWU supports the statement customers will not be materially affected by the transaction in this filing.

All cost studies or analyses used by the Commission to support its determinations that the asset acquisitions listed in response to ORS Request No. 1-13 were in the public interest and that customers would not be materially affected by the transaction would have been included in the respective evidentiary records of those cases; please refer to the case records of those dockets. Regarding the equity transactions listed in response to ORS Request No. 1-13, no cost studies or analyses were provided since Commission approval was not required; nevertheless, competitive benefits similar to asset sales are expected to be achieved.

-Brian Bahr

1-16

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1-17

[REDACTED]

[REDACTED]

[REDACTED]

1-18

[REDACTED]

[REDACTED]

[REDACTED]

1-19

[REDACTED]

[REDACTED]

[REDACTED]

- 1-20 Please explain how SWWC, its subsidiaries, or affiliates will fund the asset acquisition. If new long-term debt will be utilized, provide the detail and status of acquiring new note(s). If equity will be utilized, provide the detail of the source of such equity.

On the closing date, the specified acquiror, SCWU, will fund the asset acquisition from a combination of existing debt and equity.

-Dan Medina

- 1-21 What cost savings and management improvements has SCWU studied, considered, or identified in connection with this acquisition? Provide all cost studies or cost analyses related to this acquisition. Provide the names of the individuals who completed such studies or analyses and identify all instructions and guidance provided to the individual(s) who completed the studies or analyses. If no cost study or analysis exists, provide a detailed explanation of why cost savings were not an aspect in determining the terms of this acquisition and the purchase price.

SCWU believes that there can be improvements in reliability and resiliency with the acquisition. Synergy customers will be served by a larger utility with scale and a significant presence in the Columbia area, resulting in more available resources to serve the utility's customers. Additionally, SCWU will offer enhanced customer service options that will improve the customer experience. There are no cost studies or cost analyses performed as a part of the acquisition. In a regulated environment, efficiencies are returned to the customers through rates over time.

-Michael Cartin

Questions about the Asset Purchase Agreement

1-23

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

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1-32 [REDACTED]

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[REDACTED]

[REDACTED]

1-36

[REDACTED]

1-37 Describe all transition costs resulting from this acquisition and provide the full level of detail presently available itemizing the amount of transition costs. In addition:

- a. Provide a detailed breakdown to itemize all estimated transition costs budgeted by SCWU.

SCWU does not have a breakdown of estimated transition costs and is not requesting any approval of transition costs as part of this proceeding.

- b. Provide the specific customer benefit associated with each category of transition costs.

Please refer to SCWU's response to ORS Request No. 1-56.

- c. If Synergy is not currently providing those benefits to its customers, please explain why not.

The software costs and human resources expenses associated with benefits listed in response to ORS Request No. 1-56 would not be a prudent investment for a company the size of Synergy.

- d. Absent the APA, would Synergy be able to provide these customer benefits at lower cost? If the answer is no, provide a detailed cost analysis or cost study that supports the answer.

The ORS is fully aware of Synergy's cost of service. At this time, Synergy's level of service is consistent with its authorized revenue. Were Synergy to attempt to provide additional customer benefits, its costs would increase, which would drive Synergy to the Commission for rate relief sooner than necessary.

- e. If the Public Service Commission of South Carolina ("Commission") today ordered Synergy to provide those benefits to its customers, would Synergy be able to provide those benefits within one (1) year? If not, provide a detailed explanation why not.

The benefits provided by SCWU are not easily replicable given the size and scope of resources available to SCWU through SWWC. Synergy cannot forecast whether it could secure the talent and necessary labor to provide. Additionally, the companies are not aware of the expense and debt service required to upgrade Synergy's IT and software programs.

-Keith Parnell & Michael Cartin

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[REDACTED]

[REDACTED]

[REDACTED]

1-39

[REDACTED]

[REDACTED]

[REDACTED]

1-40

[REDACTED]

[REDACTED]

[REDACTED]

1-41

[REDACTED]

[REDACTED]

1-42 [REDACTED]

[REDACTED]

Questions about Northwood Estates Subdivision

1-43 [REDACTED]

[REDACTED]

1-44 [REDACTED]

[REDACTED]

1-45 Is SCWU aware of the AECOM Study¹ dated April 2017 and subsequently updated on August 19, 2019 (*see* Attachment A), which details deficiencies in the Northwood wastewater collection system and the probable costs associated to rectify those deficiencies, and the HPG Study² dated June 4, 2020 (*see* Attachment B)? If the answer is in the affirmative:

- a. Provide any cost studies or any other type of analyses SCWU or Synergy has in its possession related to the deficiencies identified in the AECOM Study.

Neither SCWU nor Synergy has such study or other type of analysis in its possession.

- b. Explain why Paragraph 10, Item (e) of the Asset Purchase Agreement does not require any repairs to the collection system that serves Northwood.

While Section 10(e) of the Asset Purchase Agreement contains a handful of discrete asset repairs that SCWU and Synergy had negotiated to be handled by Synergy at its cost prior to the closing of the asset acquisition, as part of arm's-length, good-faith negotiations, Section 10(e) was not intended to, and does not, include a comprehensive list of all repairs that may be prudent to make to Synergy's collection systems.

-Joshua Abbotoy & Keith Parnell

1-46 [REDACTED]

1-47 [REDACTED]

1-48 [REDACTED]

¹ Titled *Sanitary Sewer System Evaluation for Northwood Estates Collection System for County of Orangeburg*.
² Titled *Synergy Utilities, LP Preliminary Cost Estimate, Sanitary Sewer System Improvement for Northwoods Estate Subdivision*.

1-49

1-50

1-51 The letter from Scott Elliott on behalf of Synergy to W. Marshall Taylor, Jr., Acting Director of DHEC, dated September 22, 2020 (*see* Attachment C), includes the statement “[a]s a protection to its customers for unusual spikes in treatment costs, Synergy caps DPU’s treatment costs at 400 gallons per day per month.” In regard to this protection afforded to the customers in Northwood:

c. Will SCWU continue to provide this protection to the customers in Northwood and any other protection identified in part a. above?

Yes.

-Keith Parnell & Michael Cartin

[REDACTED]

Questions about Other Technical, Managerial, and Financial Topics

- 1-52 [REDACTED]
[REDACTED]
[REDACTED]
- 1-53 [REDACTED]
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May 26, 2021

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2021-130-S

IN RE: Joint Application for Approval of)	SOUTH CAROLINA OFFICE OF
the Sale of Assets and Transfer of)	REGULATORY STAFF'S SECOND
Facilities, Territory, and Certificate of)	AND CONTINUING REQUEST FOR
Public Convenience and Necessity from)	BOOKS, RECORDS, AND OTHER
Synergy Utilities, L.P to South Carolina)	INFORMATION
Water Utilities, Inc.)	
_____)	

TO: CHARLES L.A. TERRENI, ESQUIRE AND SCOTT ELLIOTT, ESQUIRE,
COUNSEL FOR SYNERGY UTILITIES, L.P. AND SOUTH CAROLINA WATER
UTILITIES, INC.

I. INSTRUCTIONS

The South Carolina Office of Regulatory Staff ("ORS") hereby requests pursuant to S.C. Code Ann. §§ 58-4-55 and 58-5-230 that Synergy Utilities, L.P ("Synergy") and South Carolina Water Utilities, Inc. ("SCWU") ("collectively the Joint Applicants") provide responses in writing, electronically where required, and serve the undersigned by **July 6, 2021**, to ORS at 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. If you are unable to respond to any of the requests, or part or parts thereof, please specify the reason for your inability to respond and state what other knowledge or information you have concerning the unanswered portion.

As used in these requests, "identify" means, when asked to identify a person, to provide the full name, business title, address and telephone number. As used in these requests, "address" means mailing address and business address.

When asked to identify or provide a document, “identify” and “provide” mean to provide a full and detailed description of the document and the name and address of the person who has custody of the document. In lieu of providing a full and detailed description of a document, a copy of the document may be attached with the identity of the person who has custody of it. When the word “document” is used herein, it means any written, printed, typed, graphic, photographic, or electronic matter of any kind or nature and includes, but is not limited to, statements, contracts, agreements, reports, opinions, graphs, books, records, letters, correspondence, notes, notebooks, minutes, diaries, memoranda, transcripts, photographs, pictures, photomicrographs, prints, negatives, motion pictures, sketches, drawings, publications, and tape recordings.

Wherever in this request a masculine pronoun or possessive adjective appears, it refers to both males and females in accordance with traditional English usage.

IT IS THEREFORE REQUIRED:

- Pursuant to S.C. Code Ann. § 58-4-55(A), that responses be submitted under oath.
- In addition to the signature and verification at the close of the responses, the witness(es), employee(s), contractor(s), or agent(s) responsible for the information contained in each response shall be indicated at the bottom of each response.
- All information provided shall be provided in electronic form only unless otherwise requested. All information available in Excel spreadsheets shall be provided in Excel. All Excel spreadsheets shall be working copies with all formulas, links, and calculations intact.
- All electronic documents provided must be provided in native file format with all formulas, links, and calculations intact. Responses containing .pdf documents must be searchable. Each electronic file must be clearly marked with the Response number.
- Any inquiries or communications relating to questions concerning clarification of the information requested below should be directed to Kyle D. Maurer Sr., PhD, P.E. [803.737.0959], Daniel P. Hunnell [803.737.0780], Benjamin P. Mustian, Esquire [803.737.0898] or Alexander W. Knowles, Esquire [803.737.0889] of ORS.
- That the responses be sent electronically to Kyle D. Maurer Sr., PhD, P.E. at kmaurer@ors.sc.gov, Daniel P. Hunnell at dhunnell@ors.sc.gov, Benjamin P. Mustian,

Esquire at bmustian@ors.sc.gov, and Alexander W. Knowles, Esquire at aknowles@ors.sc.gov.

- That this entire list of requests be reproduced and included in front of each set of responses.
- If the response to any request is that the information requested is not currently available, please advise ORS and state when the information requested will be available and provided to the ORS. This statement is not a waiver of the deadline for all other responses.
- This request is continuing and requires the Company to supplement or amend its responses as any additional information becomes available.
- For every page produced to ORS that contains confidential information, the page is to be marked “CONFIDENTIAL” in the header. Any specific information which the Company designates as confidential information must also be marked by notation, highlighting, or other conspicuous means.
- The following definitions shall apply:
 - a. Goodwill. Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The terms “goodwill” and “acquisition premium” are used interchangeably for ratemaking purposes and for the purposes of this request.
 - b. Transaction costs. Transaction costs include any costs incurred in connection with completion of the acquisition of Synergy and/or its assets, facilities, territory, and Certificate of Public Convenience and Necessity by SCWU including the costs of obtaining all necessary regulatory approvals for the sale and any payments identified in the Agreement. Examples of such costs include, but are not limited to, legal fees and expenses, regulatory filing fees, costs of developing and pursuing regulatory approvals, accounting fees, interest, prepayment penalties, financial advisory fees, and banking fees.
 - c. Transition costs. Transition costs are generally costs arising from the activities necessary to integrate the purchased entity into the acquiring entity. Examples of transition costs include but are not limited to, those costs related to the integration of financial, IT, human resource, billing, accounting, and telecommunications systems and processes. Other examples of costs may include, but are not limited to, severance payments to employees, costs related to changes to signage, the cost of transitioning employees to post-merger employee benefit plans, legal fees, and expenses related to the resolution of the NPDES permit for Raintree Acres (SC0039055) and wholesale wastewater treatment agreement with City of Orangeburg Department of Public Utilities (“Orangeburg DPU”), and termination of any duplicative leases, contracts, operations.

II. REQUESTS

Questions about SCWU and SouthWest Water Company ("SWWC")

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2-6 Follow up to AIR 1-20. Provide details of the existing debt instrument(s) to be used to fund to the asset acquisition. For each debt instrument, whether short-term or long-term debt, identify the current debt holder, issue date, maturity date, original principal amount, amount outstanding, and interest rate.

The debt funding used to close the transaction will be sourced from short-term intercompany advances from SWWC.

-Dan Medina

2-7 Follow up to AIR 1-20. Provide details of the source(s) of equity by type/category of equity to be used to fund the asset acquisition.

The equity funding used to close the transaction will be provided to SCWU in the form of common equity, contributed by SWWC to its immediate subsidiary, Southeast Utility Systems, Inc. and downstreamed via corollary equity contributions into SCWU. SWWC will source the equity funding from cash on hand.

-Dan Medina

2-8 Follow up to AIR 1-21. Given that no cost studies or cost analyses were performed as part of the acquisition, please provide quantifiable support for SCWU's statement that "SCWU believes that there can be improvements in reliability and resiliency with the acquisition." The response should highlight specific, quantifiable aspects of Synergy's existing

reliability and resiliency relative to the improvements in reliability and resiliency to be implemented by SCWU.

Current Synergy owner, Keith Parnell, is the only current Synergy employee with the proper wastewater operator's license to operate the Bush River and Raintree WWTPs. Synergy has only one other employee who is a licensed professional engineer, Ken Parnell, who works in a limited capacity for the company. If for any reason Keith Parnell was not able to be on-site handling the daily operation and maintenance required of Synergy's wastewater systems, Synergy would have to search for assistance elsewhere to ensure compliance of treatment plants and responsiveness to customer emergencies. SCWU has the ability to provide the additional human resources necessary to operate these treatment facilities and respond to customer's needs. This would provide improvements in reliability and resiliency within Synergy's systems.

Being part of a company that operates nationally, SCWU has access to resources otherwise unavailable. Though it is not anticipated at this time, should a natural disaster occur, SCWU would be able to respond in a timely, cost-efficient manner. By way of example, when severe flooding hit southeast Texas in 2017 following Hurricane Harvey, many customers were affected. The local customer call center was unable to open, but SouthWest rerouted customer calls to the call center of another subsidiary in California. Another example of resiliency and reliability being improved through affiliate relationships occurred when severe winter storms hit Texas in 2021, resulting in freezing temperatures, frozen roads, and power blackouts. Teams of operators from all over the country descended on Texas to help fix leaks and stabilize water systems. In both of the above instances, the local utility's ability to draw resources from a larger organization resulted in benefits to customers.

-Michael Cartin

- 2-9 Follow up to AIR 1-47. It is ORS's understanding Synergy owns and operates two pump stations within the Northwoods subdivision. Please explain why there is no amount recorded under Section 3 Pumping Equipment on either Schedule 201 or Schedule 202 within the response to AIR 1-47. If necessary, please provide an updated Schedule 201 and Schedule 202.

The omission was inadvertent. Please see Attachment "ORS Response AIR 2-9" for revised schedules 201 and 202 (Northwoods only).

-Keith Parnell

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2-15 [REDACTED]

2-15.1 Customer name:

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[REDACTED]

[REDACTED]

September 6, 2021